Types of Data Analytics

Asad Raza Virk

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Table of contents

1 Types of Data Analytics

Types of Data Analytics can be categorized into four primary types, each serving a different purpose in understanding and using data. These types range from understanding past events to making future predictions and recommendations. Let's dive into the four main types:

1.1 Descriptive Analytics

- Definition: Descriptive analytics focuses on summarizing historical data to answer the question: What happened? It provides insights based on past data by aggregating and summarizing data to provide a clear picture of trends, patterns, and performance.
- Techniques:
  - Data aggregation: Summarizing data by grouping it.
  - Data visualization: Using charts and graphs to represent data (e.g., bar charts, histograms, pie charts).

  - Summary statistics: Computing basic statistical measures like mean, median, mode, and standard deviation.
  - OLAP (Online Analytical Processing): Multi-dimensional analysis of business data for detailed reporting.

- Examples:
  - Monthly sales reports showing how much revenue was generated.
  - Website traffic reports summarizing the number of visitors over time.

- Roadmap for Descriptive Analytics:
  1. Data Collection: Gather raw data from various sources (e.g., databases, web logs).
  2. Data Cleaning: Handle missing data, remove outliers, and correct inconsistencies.
  3. Data Summarization: Use pivot tables, summary statistics, and basic visualizations.
  4. Report Generation: Develop dashboards and reports for stakeholders to view historical performance.

- Key Tools:
  - Excel, Google Sheets: Basic descriptive stats and visualizations.
  - Power BI, Tableau: Advanced visualizations and reporting.
  - SQL: Querying data for summaries.

1.2 Diagnostic Analytics

- Definition: Diagnostic analytics digs deeper into the data to understand the reasons behind certain trends or outcomes, answering the question: Why did it happen? It involves drilling down into data to identify causes of past events or performance.
- Techniques:
  - Data Mining: Discovering patterns and relationships in large datasets.
  - Correlation Analysis: Checking how different variables are related.
  - Root Cause Analysis: Identifying the underlying causes of issues or trends.
  - Drill-Down Analysis: Breaking down aggregated data into finer detail to examine underlying issues.

- Examples:

  - Analyzing why product sales dropped in a specific region.
  - Investigating factors that caused a spike in website traffic or customer churn.

- Roadmap for Diagnostic Analytics:

  1. Descriptive Analytics: Start with a descriptive summary of what happened.
  2. Data Drilling: Segment data (e.g., by location, time, or demographic).
  3. Identify Patterns: Use correlation and causality to find relationships between variables.
  4. Explain: Understand root causes, often through further data mining or analysis.

- Key Tools:

  - Python, R: Statistical analysis and data mining.
  - Power BI, Tableau: Visualization tools with drill-down capabilities.
  - SQL: Database queries for deeper insights.

1.3 Predictive Analytics

- Definition: Predictive analytics uses historical data to make predictions about future outcomes, answering the question: What is likely to happen? It involves the use of statistical models and machine learning algorithms to forecast future trends based on patterns identified in the data.
- Techniques:

  - Regression Analysis: Used to predict a dependent variable based on one or more independent variables.
  - Time-Series Analysis: Forecasting future trends based on historical time-based data.
  - Machine Learning Algorithms: Such as decision trees, random forests, and neural networks for prediction.
  - Classification and Clustering: Grouping data points and predicting categories (e.g., predicting customer churn).

- Examples:

  - Predicting customer behavior, such as purchases or churn.
  - Forecasting future sales or demand for products.

- Roadmap for Predictive Analytics:

1. Data Preparation: Clean and transform data for modeling.
2. Feature Engineering: Select and create relevant variables (features) to use in predictive models.
3. Model Selection: Choose appropriate models (e.g., regression, decision trees, neural networks).
4. Model Training: Train the model using historical data.
5. Validation and Testing: Validate the model's accuracy with test data and adjust as needed.
6. Deployment: Use the model in real-world scenarios for predictions.

- Key Tools:
  - Python, R: Machine learning libraries (e.g., Scikit-learn, TensorFlow).
  - SAS, SPSS: Advanced statistical and predictive modeling software.
  - H2O.ai: Open-source machine learning platform for predictions.

1.4 Prescriptive Analytics

- Definition: Prescriptive analytics goes beyond predictions to provide recommendations for actions, answering the question: What should we do? It involves using optimization and simulation algorithms to suggest possible actions or strategies based on predictive insights.
- Techniques:
  - Optimization Algorithms: Finding the best solution under given constraints (e.g., linear programming).
  - Simulation Models: Using simulations to explore possible outcomes based on different strategies.
  - Decision Trees: Structuring decisions and their possible consequences.
  - Scenario Analysis: Evaluating different "what-if" scenarios to determine the best course of action.
- Examples:
  - Recommending the best pricing strategy based on market conditions and sales forecasts.
  - Suggesting supply chain optimizations to reduce costs and improve efficiency.

- Roadmap for Prescriptive Analytics:
  1. Predictive Analytics: Start with predictive insights about future trends or outcomes.
  2. Define Objectives: Establish the goals you want to optimize (e.g., maximize profit, minimize cost).
  3. Scenario Analysis: Evaluate different strategies or scenarios.
  4. Optimization: Use optimization techniques to find the best solution under the constraints.
  5. Implementation: Recommend actions based on the optimal solution and continuously monitor outcomes.
- Key Tools:
  - Gurobi, CPLEX: Optimization tools for prescriptive modeling.
  - AnyLogic: Simulation software for scenario analysis.
  - Python, R: Libraries for optimization and decision-making algorithms.

1.5 Roadmap for Building an Analytics Strategy

To build a comprehensive data analytics strategy, it's important to understand how these types of analytics fit together in a roadmap. Here's a general roadmap for implementing data analytics in an organization:

- Step 1: Identify Business Objectives
  - Define what you aim to achieve (e.g., increase sales, reduce churn, optimize operations).
  - Align your analytics efforts with business goals.
- Step 2: Descriptive Analytics
  - Gather historical data and understand what has happened.
  - Create dashboards and reports to summarize data trends.
- Step 3: Diagnostic Analytics
  - Investigate reasons for historical trends.
  - Perform root cause analysis to understand why certain patterns occurred.
- Step 4: Predictive Analytics

  - Build predictive models to forecast future trends based on historical data.
  - Use techniques like regression, classification, or time series analysis.

- Step 5: Prescriptive Analytics
  - Develop optimization models to recommend actions based on predictions.
  - Implement decision-making tools and simulation models.

- Step 6: Monitoring and Feedback
  - Continuously monitor analytics models to ensure accuracy and relevance.
  - Adapt the models and strategies based on changing data or business needs.

1.6 Conclusion

Each type of analytics—descriptive, diagnostic, predictive, and prescriptive—serves a unique purpose and fits into the overall data strategy. Descriptive analytics focuses on understanding the past, diagnostic analytics explains why things happened, predictive analytics anticipates future events, and prescriptive analytics helps decide what actions to take. Together, these types of analytics allow businesses to make informed, data-driven decisions that can improve efficiency, reduce risks, and capitalize on opportunities.